

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Montrose Charter Township	County Genesee
Fiscal Year End December 31, 2006	Opinion Date June 19, 2007	Date Audit Report Submitted to State June 22, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

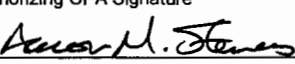
YES  
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input checked="" type="checkbox"/>	N/A		
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836		
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI	Zip 48823
Authorizing CPA Signature 		Printed Name Aaron M. Stevens, CPA		License Number 1101024055

**Montrose Charter Township  
Genesee County, Michigan**

**FINANCIAL STATEMENTS**

**December 31, 2006**

Montrose Charter Township  
Genesee County, Michigan

December 31, 2006

BOARD OF TRUSTEES AND ADMINISTRATION

Mark Emmendorfer	Supervisor
Kelly Yuhos	Clerk
Donald Sullivan	Treasurer
Bill Persails	Trustee
Fred Domine	Trustee
Gary Keeler	Trustee
John Newcomer	Trustee

Montrose Charter Township

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INDEPENDENT AUDITOR'S REPORT

Members of the Township Board  
Montrose Charter Township  
Montrose, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Montrose Charter Township as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Montrose Charter Township as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Montrose Charter Township's basic financial statements. The combining fund financial statements listed in the Table of Contents under other supplementary financial information are presented for purposes of additional analysis and are not a required part of the financial statements of Montrose Charter Township. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

June 15, 2007

## Montrose Charter Township

### MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

The discussion and analysis of the Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2006. Please read it in conjunction with the Township's financial statements.

#### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2006:

- Intergovernmental revenues, our largest revenue source in the General Fund, decreased approximately \$8,255 from the prior year. The decrease is the net result of a decrease in State Revenue Sharing and property taxes to the Township.
- Total fund balances related to the Township's governmental funds increased by \$618,132.

#### **Using this Annual Report**

This discussion and analysis is intended to serve as an introduction to Montrose Charter Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information, in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The statement of net assets and the statement of activities provide information about the activities of Montrose Charter Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

**Fund Financial Statements.** The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of Montrose Charter Township in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which Montrose Charter Township acts solely as a trustee or agent for the benefit of those outside the government.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Montrose Charter Township

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

Montrose Charter Township maintains six (6) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Police Fund, Fire Fund, and Sanitary Landfill Fund which are considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the Other Supplementary Information section of this report.

The Township adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund and the major Special Revenue Funds to demonstrate compliance with this budget.

**Proprietary Funds.** Montrose Charter Township maintains three (3) proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses Enterprise Funds to account for its sewer system, water system, and sewer connections activity.

**Fiduciary Funds.** Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-25 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, such as this MD&A and the General Fund and major Special Revenue Funds budgetary comparison schedules. Combining statements referred to earlier in connection with nonmajor governmental funds are presented as other supplementary information.

**The Township as a Whole**

The following table shows, in a condensed format, the net assets as of December 31, 2006 and 2005.

	Governmental Activities December 31		Business-type Activities December 31		Totals December 31	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current and other assets	\$ 1,720,113	\$ 607,571	\$ 525,521	\$ 467,953	\$ 2,245,634	\$ 1,075,524
Capital assets, net	1,730,987	1,912,001	1,549,052	1,250,609	3,280,039	3,162,610
Total assets	3,451,100	2,519,572	2,074,573	1,718,562	5,525,673	4,238,134
<b>Liabilities</b>						
Current liabilities	646,087	151,677	81,238	77,941	727,325	229,618
Noncurrent liabilities	-	-	281,419	314,861	281,419	314,861
Total liabilities	646,087	151,677	362,657	392,802	1,008,744	544,479
<b>Net Assets</b>						
Invested in capital assets net of related debt	1,730,987	1,912,001	1,237,652	910,425	2,968,639	2,822,426
Restricted	573,614	-	-	47,764	573,614	47,764
Unrestricted	500,412	455,894	474,264	367,571	974,676	823,465
	<u>\$ 2,805,013</u>	<u>\$ 2,367,895</u>	<u>\$ 1,711,916</u>	<u>\$ 1,325,760</u>	<u>\$ 4,516,929</u>	<u>\$ 3,693,655</u>

# Montrose Charter Township

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

Net assets may serve over time as a useful indicator of a government's financial position. Montrose Charter Township's assets exceeded liabilities by \$4,516,929 as of December 31, 2006. By far the most significant portion of the Township's net assets (66 percent) reflects its investment in capital assets (e.g., land, buildings, equipment); less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Township's net assets (approximately 13 percent) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$974,676 may be used to meet the Township's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Township is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The Township's net assets increased by \$850,639 during the current year as discussed below.

	Governmental Activities December 31		Business-type Activities December 31		Totals December 31	
	2006	2005	2006	2005	2006	2005
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 1,216,560	\$ 391,228	\$ 309,747	\$ 432,187	\$ 1,526,307	\$ 823,415
Operating grants and contributions	20,868	260,920	-	-	20,868	260,920
Capital grants and contributions	-	657,952	391,000	-	391,000	657,952
General revenue:						
Property taxes	280,607	371,013	-	-	280,607	371,013
State shared revenue	840,144	481,400	-	-	840,144	481,400
Investment earnings	9,607	9,293	8,073	5,952	17,680	15,245
Miscellaneous	57,091	27,513	30	35	57,121	27,548
Transfers	( 3,500 )	-	3,500	-	-0-	-0-
<b>Total revenue</b>	<b>2,421,377</b>	<b>2,199,319</b>	<b>712,350</b>	<b>438,174</b>	<b>3,133,727</b>	<b>2,637,493</b>
<b>Program Expenses</b>						
General government	469,985	499,998	-	-	469,985	499,998
Public safety	885,350	1,131,273	-	-	885,350	1,131,273
Public works	409,146	605,961	326,194	356,952	735,340	962,913
Community and economic development	14,290	-	-	-	14,290	-
Recreation and cultural	178,123	166,717	-	-	178,123	166,717
Other expenses	-	265,002	-	-	-	265,002
<b>Total program expenses</b>	<b>1,956,894</b>	<b>2,668,951</b>	<b>326,194</b>	<b>356,952</b>	<b>2,283,088</b>	<b>3,025,903</b>
<b>Change in Net Assets</b>	<b>\$ 464,483</b>	<b>\$( 469,632 )</b>	<b>\$ 386,156</b>	<b>\$ 81,222</b>	<b>\$ 850,639</b>	<b>\$( 388,410 )</b>

### Governmental Activities

Governmental activities increased the Township's net assets by \$464,483 during fiscal year 2006. Key elements of this increase are as follows:

The Township's governmental activities' revenues totaled \$2,421,377 with the greatest revenue source being charges for services. Charges for services make up approximately 50% of total governmental revenue.

The Township incurred expenses of \$1,956,894 during the year. The majority of governmental expense is associated with the public safety function, which includes fire and police services.



Montrose Charter Township  
MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

**Business-type Activities**

Business-type activities increased the Township's net assets by \$386,156 during fiscal year 2006. The increase in net assets was due to increasing the Police and Fire contracts with the City of Montrose and a grant from the Genesee County Road Commission to install a sewer line to their garage. The majority (55%) of the revenue of the business-type activities is generated through capital grants and contributions.

**The Township's Funds**

**Governmental Funds.** The analysis of the Township's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not Montrose Charter Township as a whole. Montrose Charter Township's Board of Trustees creates funds to help manage money for specific purposes. The Township's major governmental funds for the fiscal year ended December 31, 2006 were the General Fund, Police Fund, Fire Fund, and Sanitary Landfill Fund.

The General Fund pays for most of the Township's governmental services. The most significant service provided during the fiscal year was for general government services, which incurred expenditures of \$334,551 for the fiscal year.

**Proprietary Funds.** The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sewer System Fund and the Water System Fund at the end of the year amounted to \$60,561 and \$411,419, respectively. The changes in net assets for the Sewer System Fund and the Water System Fund for the fiscal year were \$21,719 and \$18,986, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Township's business-type activities.

**General Fund Budgetary Highlights**

Over the course of the fiscal year, the Township Board made necessary budget adjustments to reflect anticipated actual expenditures during the year. The General Fund expenditure budget decreased by \$94,435 to \$852,155 from its original appropriated amount of \$946,590.

**Capital Asset and Debt Administration**

**Capital Assets.** At the end of the fiscal year, the Township had approximately \$3,280,039 invested in a broad range of capital assets, including buildings, land, equipment, and utilities. In addition, the Township has made certain investments in roads and drains within Montrose Charter Township. These assets are not reported in Montrose Charter Township's fund statements because under Michigan law these roads and drains are the property of the Genesee County Road and Drain Commissions, respectively.

**Long-Term Debt.** The Township reduced its notes payable balance by \$28,784 to take its outstanding debt balance to \$311,400.

**Current Economic Factors**

Once again Revenue Sharing will be the significant budgetary concern for the next year. The State of Michigan has not repaired or made significant progress in their budgeting problems and short falls from 2006. As the State works on their 2008 budget, there will most likely be some cuts to Township Revenue Sharing.

We will closely watch State Revenue Sharing and continue to invest wisely. We are trying to create some additional saving for future capital improvements.

Montrose Charter Township  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2006

**Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Township Supervisor or Treasurer at the Township Hall.

## **BASIC FINANCIAL STATEMENTS**

Charter Township of Montrose

STATEMENT OF NET ASSETS

December 31, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 870,981	\$ 186,882	\$ 1,057,863
Investments	300,000	300,000	600,000
Receivables	361,641	54,461	416,102
Due from other governmental units	78,202	-	78,202
Prepays	93,467	-	93,467
Internal balances	15,822	(15,822)	-0-
Total current assets	1,720,113	525,521	2,245,634
Noncurrent assets			
Capital assets not being depreciated	229,000	-	229,000
Capital assets, net of accumulated depreciation	1,501,987	1,549,052	3,051,039
Total noncurrent assets	1,730,987	1,549,052	3,280,039
<b>TOTAL ASSETS</b>	3,451,100	2,074,573	5,525,673
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	78,176	47,247	125,423
Accrued wages payable	23,945	-	23,945
Accrued interest payable	-	4,010	4,010
Deferred revenue	543,966	-	543,966
Current portion of long-term debt	-	29,981	29,981
Total current liabilities	646,087	81,238	727,325
Noncurrent liabilities			
Noncurrent portion of long-term debt	-	281,419	281,419
<b>TOTAL LIABILITIES</b>	646,087	362,657	1,008,744
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,730,987	1,237,652	2,968,639
Restricted for:			
Capital improvements	391,880	-	391,880
Police operations	101,170	-	101,170
Fire operations	80,564	-	80,564
Unrestricted	500,412	474,264	974,676
<b>TOTAL NET ASSETS</b>	<u>\$ 2,805,013</u>	<u>\$ 1,711,916</u>	<u>\$ 4,516,929</u>

See accompanying notes to financial statements.

Charter Township of Montrose

STATEMENT OF ACTIVITIES

Year Ended December 31, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government							
Governmental activities							
General government	\$ 469,985	\$ 164,036	\$ -	\$ -	\$ (305,949)	\$ -	(305,949)
Public safety	885,350	205,861	20,868	-	(658,621)	-	(658,621)
Public works	409,146	788,739	-	-	379,593	-	379,593
Community and economic development	14,290	16,274	-	-	1,984	-	1,984
Recreation and cultural	178,123	41,650	-	-	(136,473)	-	(136,473)
Total governmental activities	1,956,894	1,216,560	20,868	-0-	(719,466)	-0-	(719,466)
Business-type activities							
Sewer system	72,332	91,847	-	-	-	19,515	19,515
Water system	202,848	217,900	-	-	-	15,052	15,052
Sewer connections	51,014	-	-	391,000	-	339,986	339,986
Total business-type activities	326,194	309,747	-0-	391,000	-0-	374,553	374,553
Total primary government	<u>\$ 2,283,088</u>	<u>\$ 1,526,307</u>	<u>\$ 20,868</u>	<u>\$ 391,000</u>			
General revenues							
Property taxes					280,607	-	280,607
State shared revenue					840,144	-	840,144
Investment earnings					9,607	8,073	17,680
Miscellaneous					57,091	30	57,121
Transfers					(3,500)	3,500	-0-
Total general revenues and transfers					1,183,949	11,603	1,195,552
Change in net assets					464,483	386,156	850,639
Restated net assets, beginning of the year					2,340,530	1,325,760	3,666,290
Net assets, end of the year					<u>\$ 2,805,013</u>	<u>\$ 1,711,916</u>	<u>\$ 4,516,929</u>

See accompanying notes to financial statements.

Charter Township of Montrose

GOVERNMENTAL FUNDS BALANCE SHEET

December 31, 2006

	General	Police	Fire
<b>ASSETS</b>			
Cash and cash equivalents	\$ 324,515	\$ 99,158	\$ 234,708
Investments	-	-	-
Accounts receivable	74,643	-	-
Taxes receivable	43,741	48,311	194,946
Due from other funds	3,416	5,000	-
Due from other governmental units			
State	78,202	-	-
Prepays	24,487	62,320	4,303
<b>TOTAL ASSETS</b>	<b>\$ 549,004</b>	<b>\$ 214,789</b>	<b>\$ 433,957</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 44,016	\$ 7,260	\$ -
Accrued wages	4,799	18,831	-
Due to other funds	10,937	-	201
Deferred revenue	103,246	87,528	353,192
<b>TOTAL LIABILITIES</b>	<b>162,998</b>	<b>113,619</b>	<b>353,393</b>
<b>FUND BALANCES</b>			
Reserved for			
Prepays	24,487	62,320	4,303
Unreserved			
Undesignated, reported in			
General fund	361,519	-	-
Special revenue funds	-	38,850	76,261
<b>TOTAL FUND BALANCES</b>	<b>386,006</b>	<b>101,170</b>	<b>80,564</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 549,004</b>	<b>\$ 214,789</b>	<b>\$ 433,957</b>

See accompanying notes to financial statements.

Sanitary Landfill	Nonmajor Governmental Funds	Total Governmental Funds
\$ 96,061	\$ 116,539	\$ 870,981
300,000	-	300,000
-	-	74,643
-	-	286,998
26,759	-	35,175
-	-	78,202
-	2,357	93,467
<u>\$ 422,820</u>	<u>\$ 118,896</u>	<u>\$ 1,739,466</u>
\$ 25,940	\$ 960	\$ 78,176
-	315	23,945
5,000	3,215	19,353
-	-	543,966
30,940	4,490	665,440
-	2,357	93,467
-	-	361,519
391,880	112,049	619,040
391,880	114,406	1,074,026
<u>\$ 422,820</u>	<u>\$ 118,896</u>	<u>\$ 1,739,466</u>

Charter Township of Montrose

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

December 31, 2006

**Total fund balance - governmental funds** \$ 1,074,026

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 3,790,966	
Accumulated depreciation is	<u>(2,059,979)</u>	
Capital assets, net		<u>1,730,987</u>
<b>Net assets of governmental activities</b>		<u><u>\$ 2,805,013</u></u>

See accompanying notes to financial statements.



Charter Township of Montrose

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2006

	General	Police	Fire
REVENUES			
Taxes	\$ 109,924	\$ 170,683	\$ 56,866
Licenses and permits	41,850	2,280	-
Intergovernmental	565,164	295,847	-
Charges for services	335,432	68,321	-
Fines and forfeits	-	25,144	-
Interest and rents	6,606	623	845
Other	7,639	13,740	3,253
TOTAL REVENUES	1,066,615	576,638	60,964
EXPENDITURES			
Current			
General government	334,551	-	-
Public safety	159,833	628,750	4,105
Public works	197,183	-	-
Community and economic development	14,290	-	-
Recreation and cultural	100,882	-	-
Capital outlay	-	5,902	70,097
TOTAL EXPENDITURES	806,739	634,652	74,202
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	259,876	(58,014)	(13,238)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	156,060	-
Transfers out	(45,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(45,000)	156,060	-0-
NET CHANGE IN FUND BALANCES	214,876	98,046	(13,238)
Fund balances, beginning of year	104,461	78,971	111,989
Prior period adjustments	66,669	(75,847)	(18,187)
Fund balances, end of year	\$ 386,006	\$ 101,170	\$ 80,564

See accompanying notes to financial statements.

Sanitary Landfill	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 337,473
-	-	44,130
-	-	861,011
627,976	55,690	1,087,419
-	-	25,144
2,447	2,085	12,606
14,000	18,462	57,094
644,423	76,237	2,424,877
-	1,607	336,158
-	-	792,688
211,963	-	409,146
-	-	14,290
-	41,954	142,836
-	4,763	80,762
211,963	48,324	1,775,880
432,460	27,913	648,997
-	3,852	159,912
(118,412)	-	(163,412)
(118,412)	3,852	(3,500)
314,048	31,765	645,497
77,832	82,641	455,894
-	-	(27,365)
<u>\$ 391,880</u>	<u>\$ 114,406</u>	<u>\$ 1,074,026</u>

Charter Township of Montrose

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2006

**Net change in fund balances - total governmental funds** **\$ 645,497**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 48,969	
Depreciation expense	<u>(229,983)</u>	
Excess of depreciation expense over capital outlay		<u>(181,014)</u>

**Change in net assets of governmental activities** **\$ 464,483**

See accompanying notes to financial statements.

Charter Township of Montrose

Proprietary Funds

STATEMENT OF NET ASSETS

December 31, 2006

	Sewer System	Water System	Sewer Connections	Total Proprietary Funds
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 62,350	\$ 122,248	\$ 2,284	\$ 186,882
Investments	-	300,000	-	300,000
Accounts receivable	17,025	37,436	-	54,461
Due from other funds	4,000	-	-	4,000
Total current assets	83,375	459,684	2,284	545,343
Noncurrent assets				
Capital assets, net of accumulated depreciation	473,355	732,530	343,167	1,549,052
<b>TOTAL ASSETS</b>	<b>556,730</b>	<b>1,192,214</b>	<b>345,451</b>	<b>2,094,395</b>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	2,982	44,265	-	47,247
Accrued interest payable	4,010	-	-	4,010
Due to other funds	15,822	4,000	-	19,822
Current portion of long-term debt	29,981	-	-	29,981
Total current liabilities	52,795	48,265	-0-	101,060
Noncurrent liabilities				
Noncurrent portion of long-term debt	281,419	-	-	281,419
<b>TOTAL LIABILITIES</b>	<b>334,214</b>	<b>48,265</b>	<b>-0-</b>	<b>382,479</b>
<b>NET ASSETS</b>				
Capital assets, net of related debt	161,955	732,530	343,167	1,237,652
Unrestricted	60,561	411,419	2,284	474,264
<b>TOTAL NET ASSETS</b>	<b>\$ 222,516</b>	<b>\$ 1,143,949</b>	<b>\$ 345,451</b>	<b>\$ 1,711,916</b>

See accompanying notes to financial statements.

Charter Township of Montrose

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2006

	Sewer System	Water System	Sewer Connections	Total Proprietary Funds
OPERATING REVENUES				
Charges for services	\$ 91,847	\$ 217,900	\$ -	\$ 309,747
Other	-	30	-	30
TOTAL OPERATING REVENUE	91,847	217,930	-0-	309,777
OPERATING EXPENSES				
Sewer connections	3,080	-	-	3,080
Administration expense	39,280	168,476	-	207,756
Contractual services	-	-	32,929	32,929
Other	-	3,134	24	3,158
Depreciation	13,486	31,238	18,061	62,785
TOTAL OPERATING EXPENSES	55,846	202,848	51,014	309,708
OPERATING INCOME (LOSS)	36,001	15,082	(51,014)	69
NONOPERATING REVENUES (EXPENSES)				
Interest revenue	2,204	3,904	1,965	8,073
Interest expense	(16,486)	-	-	(16,486)
TOTAL NONOPERATING REVENUES (EXPENSES)	(14,282)	3,904	1,965	(8,413)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	21,719	18,986	(49,049)	(8,344)
CAPITAL CONTRIBUTIONS				
Intergovernmental	-	-	391,000	391,000
TRANSFERS IN	-	-	3,500	3,500
CHANGE IN NET ASSETS	21,719	18,986	345,451	386,156
Net assets, beginning of year	200,797	1,124,963	-	1,325,760
Net assets, end of year	<u>\$ 222,516</u>	<u>\$ 1,143,949</u>	<u>\$ 345,451</u>	<u>\$ 1,711,916</u>

See accompanying notes to financial statements.

Charter Township of Montrose

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended December 31, 2006

	Sewer System	Water System	Sewer Connections	Total Proprietary Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash receipts from customers	\$ 91,146	\$ 236,320	\$ -	\$ 327,466
Cash paid to suppliers	(48,997)	(146,512)	(32,953)	(228,462)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	42,149	89,808	(32,953)	99,004
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers in	-	-	3,500	3,500
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Capital contributions	-	-	391,000	391,000
Capital purchases	-	-	(361,228)	(361,228)
Principal payments	(28,784)	-	-	(28,784)
Interest expense	(16,486)	-	-	(16,486)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	(45,270)	-0-	29,772	(15,498)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	-	(300,000)	-	(300,000)
Interest revenue	2,204	3,904	1,965	8,073
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	2,204	(296,096)	1,965	(291,927)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING YEAR</b>	(917)	(206,288)	2,284	(204,921)
Restated cash and cash equivalents, beginning of year	63,267	328,536	-	391,803
Cash and cash equivalents, end of year	<u>\$ 62,350</u>	<u>\$ 122,248</u>	<u>\$ 2,284</u>	<u>\$ 186,882</u>

See accompanying notes to financial statements.

Charter Township of Montrose

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended December 31, 2006

	<u>Sewer System</u>	<u>Water System</u>	<u>Sewer Connections</u>	<u>Total Proprietary Funds</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 36,001	\$ 15,082	\$ (51,014)	\$ 69
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Depreciation	13,486	31,238	18,061	62,785
(Increase) decrease in receivables	(701)	18,390	-	17,689
Increase (decrease) in accounts payable	(3,108)	25,098	-	21,990
(Decrease) in accrued interest payable	(3,529)	-	-	(3,529)
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 <u>\$ 42,149</u>	 <u>\$ 89,808</u>	 <u>\$ (32,953)</u>	 <u>\$ 99,004</u>

Charter Township of Montrose

Fiduciary Funds

STATEMENT OF NET ASSETS

December 31, 2006

	Trust and Agency	Current Tax
<b>ASSETS</b>		
Cash and cash equivalents	<u>\$ 125,678</u>	<u>\$ 1,193,353</u>
<b>LIABILITIES</b>		
Performance bonds payable	\$ 124,386	\$ -
Due to individuals and agencies	1,292	-
Due to other governmental units	<u>-</u>	<u>1,193,353</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 125,678</u>	<u>\$ 1,193,353</u>

See accompanying notes to financial statements.



NOTES TO FINANCIAL STATEMENTS

December 31, 2006

**NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Montrose Charter Township, Michigan was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of eighteen (18) townships in Genesee County. The Township operates under an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and four (4) Trustees and provides services to its residents in many areas including general government, fire protection, law enforcement, and sewer and water utility services.

**1. Reporting Entity**

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB Statement 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Montrose Charter Township (primary government). The Township has no activities that would be classified as component units or joint ventures.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of Montrose Charter Township contain all the funds controlled by the Township Board.

**2. Basis of Presentation**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

**FUND FINANCIAL STATEMENTS**

The fund financial statements present the Township's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

Montrose Charter Township  
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

**NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

The major funds of the Township are:

- a. The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Police Fund is used to account for a tax levy for the purpose of providing police protection.
- c. The Fire Fund is used to account for a tax levy for the purpose of providing fire protection.
- d. The Sanitary Landfill Fund is used for money received from the landfill based on the amount of waste received by the landfill. The Township uses these proceeds for capital improvements within the Township.
- e. The Sewer System Fund is used to account for the operations required to provide sewer services to the general public; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- f. The Water System Fund is used to account for water services to the general public; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- g. The Sewer Connections Fund is used to account for sewer line connection projects; the costs are financed by the Township and other governmental units.

3. Measurement Focus

The government-wide, proprietary, and fiduciary financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for Agency Funds since assets equal liabilities.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

Montrose Charter Township  
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

**NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

4. Basis of Accounting - continued

All governmental and agency funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues which are considered measurable, but not available, are recorded as a receivable and deferred revenue. Revenues are generally considered available when they are received in cash (unless legally restricted to some future period) or when earned and expected to be collected soon enough after year-end to pay liabilities of the current period. Significant revenues susceptible to accrual include certain intergovernmental revenues and charges for services.

Most licenses and permits, fines and forfeits, and miscellaneous revenue sources generally are recorded as revenues when received in cash because they are not measurable until actually received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

The proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

The General Fund and major Special Revenue Fund budgets shown as required supplementary information to the financial statements were prepared on a basis not substantially different than the basis used to reflect actual results.

The Township employs the following procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to December 31, the Township Supervisor submits a proposed operating budget for the fiscal year commencing the following January 1 to the Township Board. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Township Hall to obtain taxpayer comments.

Montrose Charter Township  
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

**NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

5. Budgets and Budgetary Accounting - continued

- c. Prior to December 31, the budget is adopted through passage of a Board resolution. After the budget is adopted all transfers of budgeted amounts between activities or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- d. Formal budgetary integration is employed as a management control device during the year.
- e. The Township does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at December 31 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking and savings accounts. The cash and cash equivalents are recorded at cost, which approximates market value.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All investments are stated at market value.

7. Receivables

Receivables consist of amounts due from various individuals and businesses related to charges for services and taxes levied that have not been collected.

8. Property Tax

Montrose Charter Township bills and collects its own property taxes and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

Property taxes are levied twice per year. A summer tax is levied on July 1, and a winter tax is levied on December 1. The tax levies are due September 15 and February 28, respectively. All taxes not paid by their due dates are deemed delinquent. Delinquent real property taxes are turned over to the Genesee County Treasurer on March 1 of the year following the levy. The Genesee County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection.

The Township's property tax is levied each December 1 on the taxable valuation of property located in the Township as of the preceding December 31. Although the Township's 2006 tax is levied and collectible on December 1, 2006, it is the Township's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of the levy are budgeted and made available for the financing of Township operations.

The Township is permitted to levy up to \$1.04 per \$1,000 of taxable valuation for general governmental service and additional amounts for special services. For the year ended December 31, 2006, the Township levied .8653 mills for general governmental services, 1.4435 mills for police services, and .4810 mills for fire services. The total taxable value for the 2005 levy for the property within the Township was \$118,613,940.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

**NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

9. Capital Assets

Capital assets include land, land improvements, buildings, equipment, vehicles, sewer system, and water system and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental and business-type activities columns. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	10 - 20 years
Buildings and improvements	40 years
Water and Sewer systems	20 - 40 years
Machinery and equipment	10 - 20 years

10. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the government-wide financial statements.

11. Deferred Revenue

Deferred revenue consists of property taxes for which there is an enforceable claim as of December 31, 2006, but which are levied to finance year 2007 operations. Governmental funds report deferred revenues in connection with receivables for revenue that is not considered available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. Government-wide and proprietary financial statements report deferred revenues that are unavailable to liquidate liabilities of the current period.

12. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as noncurrent.

13. Interfund Transactions

During the course of normal operations the Township has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

14. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

Montrose Charter Township  
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits, and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the federal loan mortgage corporation, federal national mortgage association or government national mortgage association.

**Deposits**

As of December 31, 2006, the carrying amounts and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking accounts	\$ 1,717,212	\$ 999,708
Savings accounts	659,532	657,772
Certificates of Deposit	<u>600,000</u>	<u>600,000</u>
Total	<u>\$ 2,976,744</u>	<u>\$ 2,257,480</u>

The Township's cash and cash equivalents captions on the basic financial statements include \$150 of imprest cash.

Deposits of the Township are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Township. As of December 31, 2006, the Township accounts were insured by the FDIC for \$231,538 and the amount of \$2,025,942 was uninsured and uncollateralized.

Montrose Charter Township  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Deposits - continued

Due to significantly higher cash flow at certain periods during the year, the amount the Township held as cash and cash equivalents increased significantly. As a result, the amount of the uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Interest rate risk

The Township has not adopted a policy that indicates how the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Township has not adopted a policy that indicates how the Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Township has not adopted a policy that indicates how the Township will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

The cash, cash equivalents, and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of December 31, 2006:

	<u>Primary Government</u>	<u>Fiduciary</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,057,863	\$ 1,319,031	\$ 2,376,894
Investments	<u>600,000</u>	<u>-</u>	<u>600,000</u>
	<u>\$ 1,657,863</u>	<u>\$ 1,319,031</u>	<u>\$ 2,976,894</u>

**NOTE C: INTERFUND RECEIVABLES AND PAYABLES**

The amount of interfund receivables and payables at December 31, 2006, are as follows:

Due to General Fund from:	
Fire Fund	\$ 201
Nonmajor governmental funds	<u>3,215</u>
	<u>\$ 3,416</u>
Due to Police Fund from:	
Sanitary Landfill Fund	<u>\$ 5,000</u>

Montrose Charter Township  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006

**NOTE C: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED**

Due to Sanitary Landfill Fund from:	
General Fund	\$ 10,937
Sewer System Fund	<u>15,822</u>
	<u>\$ 26,759</u>
Due to Sewer System Fund from:	
Water System Fund	<u>\$ 4,000</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE D: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers.

Transfers to Police Fund from:	
General Fund	\$ 45,000
Sanitary Landfill Fund	<u>111,060</u>
	<u>\$ 156,060</u>
Transfers to Sewer Connections Fund from:	
Sanitary Landfill Fund	<u>\$ 3,500</u>
Transfers to nonmajor governmental funds from:	
Sanitary Landfill Fund	<u>\$ 3,852</u>

**NOTE E: CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2006 was as follows:

**Governmental activities**

	Balance <u>Jan. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Dec. 31, 2006</u>
Capital assets not being depreciated				
Land	\$ 229,000	\$ -	\$ -	\$ 229,000
Capital assets being depreciated				
Land improvements	817,738	-	-	817,738
Buildings and improvements	1,121,406	-	-	1,121,406
Machinery and equipment	<u>1,573,853</u>	<u>48,969</u>	<u>-</u>	<u>1,622,822</u>
Total capital assets being depreciated	3,512,997	48,969	-0-	3,561,966



Montrose Charter Township  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006

**NOTE E: CAPITAL ASSETS - CONTINUED**

**Governmental activities - continued**

	<u>Balance Jan. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2006</u>
Less accumulated depreciation for:				
Land improvements	\$( 202,480 )	\$( 41,383 )	\$ -	\$( 243,863 )
Buildings and improvements	( 577,049 )	( 1,848 )	-	( 578,897 )
Machinery and equipment	<u>( 1,050,467 )</u>	<u>( 186,752 )</u>	<u>-</u>	<u>( 1,237,219 )</u>
Total accumulated depreciation	<u>( 1,829,996 )</u>	<u>( 229,983 )</u>	<u>-0-</u>	<u>( 2,059,979 )</u>
Net capital assets being depreciated	<u>1,683,001</u>	<u>( 181,014 )</u>	<u>-0-</u>	<u>1,501,987</u>
Net capital assets - governmental activities	<u>\$ 1,912,001</u>	<u>\$( 181,014 )</u>	<u>\$ -0-</u>	<u>\$ 1,730,987</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 133,827
Public safety	65,632
Recreation and cultural	<u>30,524</u>
Total depreciation expense	<u>\$ 229,983</u>

**Business-type activities**

	<u>Balance Jan. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2006</u>
Capital assets being depreciated				
Sewer system	\$ 539,460	\$ -	\$ -	\$ 539,460
Water system	1,249,526	-	-	1,249,526
Sewer connection	<u>-</u>	<u>361,228</u>	<u>-</u>	<u>361,228</u>
Total capital assets being depreciated	1,788,986	361,228	-0-	2,150,214
Less accumulated depreciation for:				
Sewer system	( 52,619 )	( 13,486 )	-	( 66,105 )
Water system	( 485,758 )	( 31,238 )	-	( 516,996 )
Sewer connection	<u>( - )</u>	<u>( 18,061 )</u>	<u>-</u>	<u>( 18,061 )</u>
Total accumulated depreciation	<u>( 538,377 )</u>	<u>( 62,785 )</u>	<u>-0-</u>	<u>( 601,162 )</u>
Net capital assets - business-type activities	<u>\$ 1,250,609</u>	<u>\$ 298,443</u>	<u>\$ -0-</u>	<u>\$ 1,549,052</u>

Montrose Charter Township  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006

**NOTE F: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portion) of the Township for the year ended December 31, 2006:

	Balance Jan. 1, 2006	Additions	Deletions	Balance Dec. 31, 2006	Amount Due Within One Year
<b>Business-type activities</b>					
Note payable	\$ 340,184	\$ -0-	\$ 28,784	\$ 311,400	\$ 29,981

Significant details regarding outstanding long-term debt (including current portion) are presented below:

Note Payable

\$448,953 Note payable, dated June 29, 2000, due in annual installments ranging from \$40,287 to \$41,260 through August 22, 2015, including a variable interest rate currently at 3.6218 percent for the Vienna Road and Seymour Road Sanitary Sewer Project, issued in accordance with Public Act 99 of 1933. Variable interest rates for this note means a qualified tax-exempt rate of 5.91 percent per annum from the date of the Agreement through August 21, 2005 with such interest rate adjusted and effective on August 22, 2005 through August 21, 2010 to be equal to 91 percent of the average yield on U.S. Treasury Notes with maturity dates occurring within the month of July 2010 and with such interest rate adjusted again and effective on August 22, 2010 and thereafter to be equal to 91 percent of the average yield on U.S. Treasury Notes with maturity dates occurring within the month of July 2015, computed on the basis of a 360-day year for the actual number of days elapsed. In no event shall interest exceed any maximum rate of interest permitted by law.

\$ 311,400

The annual requirements to pay the debt principal and interest outstanding for the note are as follows:

Year Ending December 31,	Sewer System Note Payable	
	Principal	Interest
2007	\$ 29,981	\$ 11,279
2008	31,067	10,193
2009	32,192	9,068
2010	33,358	7,902
2011	34,566	6,694
2012-2015	<u>150,236</u>	<u>13,793</u>
	<u>\$ 311,400</u>	<u>\$ 58,929</u>

**NOTE G: RETIREMENT PLAN**

POLICE

Plan Description

On October 17, 1995, the Township Board adopted a defined contribution retirement plan for full-time and part-time police employees with Michigan Employees Retirement System (MERS). Full-time employees must contribute a minimum of 1 percent per pay period to receive a contribution from the Township in the form of a bonus of 5 percent per pay period. Part-time employees can participate in the plan, but will not receive the Township contribution. The Township's contribution for year ended December 31, 2006 was \$5,961 and the employee contribution was \$13,062.

Montrose Charter Township

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

**NOTE H: RISK MANAGEMENT**

The Township participates in a pool, the Michigan Township Participating Plan, with other municipalities for various risks of loss including employer's liability, errors and omissions, and property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Township has not been informed of any special assessments being required.

The Township carries commercial insurance for the risk of loss due to crime, employee dishonesty, and other employer liabilities.

**NOTE I: FUND EQUITY RESERVES**

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the reserved fund balances as of December 31, 2006:

General Fund	
Reserved for prepaids	\$ 24,487
Special Revenue Funds	
Police Fund	
Reserved for prepaids	62,320
Fire Fund	
Reserved for prepaids	4,303
Nonmajor governmental funds	
Reserved for prepaids	<u>2,357</u>
TOTAL REPORTING ENTITY	<u>\$ 93,467</u>

**NOTE J: PRIOR PERIOD ADJUSTMENTS**

The following prior period adjustments were made during the year, and were the result of corrections of accounting errors. These adjustments were reported as changes to beginning fund balance. The effect on operations and other affected balances for the current and prior year are as follows:

	December 31,		<u>Description</u>
	<u>2006</u>	<u>2005</u>	
General Fund			
Due from other governmental units	\$ -	\$ 80,019	To correct understated
Revenues over (under) expenditures	-	80,019	due from State
Fund balance - beginning	80,019	-	
Taxes receivable	-	84,497	To correct understated
Deferred revenue	-	( 97,847 )	taxes receivable and
Revenues over (under) expenditures	-	( 13,350 )	deferred revenue
Fund balance - beginning	( 13,350 )	-	

Montrose Charter Township  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006

**NOTE J: PRIOR PERIOD ADJUSTMENTS - CONTINUED**

	December 31, <u>2006</u>	<u>2005</u>	<u>Description</u>
Fire Fund			
Taxes receivable	\$ -	\$ 36,197	To correct understated
Deferred revenue	-	( 54,384 )	taxes receivable and
Revenue over (under) expenditures	-	( 18,187 )	deferred revenue
Fund balance - beginning	( 18,187 )	-	
Police Fund			
Taxes receivable	-	87,388	To correct understated
Deferred revenue	-	( 163,235 )	taxes receivable and
Revenue over (under) expenditures	-	( 75,847 )	deferred revenue
Fund balance - beginning	( 75,847 )	-	

**NOTE K: RESTATEMENT OF NET ASSETS**

The Township has restated its net assets for the proper revenue recognition of property taxes in accordance with Michigan Committee on Governmental Accounting and Auditing Standards No. 9. The restated beginning net asset also reflected corrections of understated due from State balances for governmental activities.

Governmental activities net assets as of December 31, 2005	\$ 2,367,895
Understated taxes receivable	208,082
Understated deferred revenue	( 315,466 )
Understated due from State	<u>80,019</u>
Restated governmental activities net assets as of December 31, 2005	<u>\$ 2,340,530</u>

**NOTE L: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the budgetary comparison schedules shown as required supplementary information to the basic financial statements, the Township's budgeted expenditures in the General Fund and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Township have been adopted at the activity level for the General Fund and at the fund level for the Special Revenue Funds.

During the year ended December 31, 2006, the Township incurred expenditures in the General Fund and Special Revenue Funds in excess of the amount appropriated as follows:

Montrose Charter Township  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006

**NOTE L: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED**

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Supervisor	\$ 20,550	\$ 20,896	\$ 346
Clerk	48,710	49,409	699
Treasurer	28,216	28,722	506
Cemetery	44,543	44,547	4
Public safety			
Building inspection	45,304	46,641	1,337
Public works			
Drains	-	12,288	12,288
Refuse collection	161,597	175,588	13,991
Community and economic development			
Planning commission	11,813	11,938	125
Zoning board of appeals	2,292	2,352	60

**NOTE M: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of December 31, 2006:

Governmental Activities	
Police operations	\$ 101,170
Fire operations	80,564
Capital improvements	<u>391,880</u>
	<u>\$ 573,614</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

Charter Township of Montrose  
General Fund  
BUDGETARY COMPARISON SCHEDULE  
Year Ended December 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 109,332	\$ 96,574	\$ 109,924	\$ 13,350
Licenses and permits	22,500	22,570	41,850	19,280
Intergovernmental	477,911	492,931	565,164	72,233
Charges for services	347,177	335,432	335,432	-0-
Interest and rents	2,000	6,606	6,606	-0-
Other	-	7,639	7,639	-0-
<b>TOTAL REVENUES</b>	<b>958,920</b>	<b>961,752</b>	<b>1,066,615</b>	<b>104,863</b>
EXPENDITURES				
General government				
Township board	224,041	160,270	157,368	2,902
Supervisor	20,600	20,550	20,896	(346)
Clerk	52,250	48,710	49,409	(699)
Board of review	1,380	1,401	1,401	-0-
Treasurer	37,230	28,216	28,722	(506)
Assessor	24,510	17,734	17,734	-0-
Bookkeeper	4,150	4,134	4,134	-0-
Elections	4,600	10,340	10,340	-0-
Cemetery	46,550	44,543	44,547	(4)
<b>Total general government</b>	<b>415,311</b>	<b>335,898</b>	<b>334,551</b>	<b>1,347</b>
Public safety				
Fire department	142,706	120,946	113,192	7,754
Building inspection	30,052	45,304	46,641	(1,337)
<b>Total public safety</b>	<b>172,758</b>	<b>166,250</b>	<b>159,833</b>	<b>6,417</b>
Public works				
Drains	167,000	-	12,288	(12,288)
Highways and streets	12,735	9,307	9,307	-0-
Refuse collection	-	161,597	175,588	(13,991)
<b>Total public works</b>	<b>179,735</b>	<b>170,904</b>	<b>197,183</b>	<b>(26,279)</b>

Charter Township of Montrose

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended December 31, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
EXPENDITURES - CONTINUED				
Community and economic development				
Planning commission	\$ 8,350	\$ 11,813	\$ 11,938	\$ (125)
Zoning board of appeals	2,115	2,292	2,352	(60)
Total community and economic development	10,465	14,105	14,290	(185)
Recreation and cultural				
Community center	76,020	23,898	19,717	4,181
Library	16,301	96,100	81,165	14,935
Total recreation and cultural	92,321	119,998	100,882	19,116
TOTAL EXPENDITURES	870,590	807,155	806,739	416
EXCESS OF REVENUES OVER EXPENDITURES	88,330	154,597	259,876	105,279
OTHER FINANCING USES				
Transfers out	(76,000)	(45,000)	(45,000)	-0-
NET CHANGE IN FUND BALANCE	88,330	109,597	214,876	105,279
Fund balance, beginning of year	104,461	104,461	104,461	-0-
Prior period adjustments	-	-	66,669	66,669
Fund balance, end of year	\$ 192,791	\$ 214,058	\$ 386,006	\$ 171,948



Charter Township of Montrose

Police Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 171,950	\$ 94,836	\$ 170,683	\$ 75,847
Licenses and permits	2,799	2,280	2,280	-0-
Intergovernmental	257,600	295,847	295,847	-0-
Charges for services	130,400	68,321	68,321	-0-
Fines and forfeits	25,000	25,144	25,144	-0-
Interest and rents	400	623	623	-0-
Other	-	13,740	13,740	-0-
TOTAL REVENUES	588,149	500,791	576,638	75,847
EXPENDITURES				
Current				
Public safety	663,930	672,239	628,750	43,489
Capital outlay	-	5,902	5,902	-0-
TOTAL EXPENDITURES	663,930	678,141	634,652	43,489
EXCESS OF REVENUES (UNDER) EXPENDITURES	(75,781)	(177,350)	(58,014)	32,358
OTHER FINANCING SOURCES				
Transfers in	-	156,060	156,060	-0-
NET CHANGE IN FUND BALANCE	(75,781)	(21,290)	98,046	119,336
Fund balance, beginning of year	78,971	78,971	78,971	-0-
Prior period adjustment	-	-	(75,847)	(75,847)
Fund balance, end of year	<u>\$ 3,190</u>	<u>\$ 57,681</u>	<u>\$ 101,170</u>	<u>\$ 43,489</u>

Charter Township of Montrose

Fire Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 57,391	\$ 38,679	\$ 56,866	\$ 18,187
Interest and rents	700	845	845	-0-
Other	-	3,253	3,253	-0-
TOTAL REVENUES	58,091	42,777	60,964	18,187
EXPENDITURES				
Current				
Public safety	9,000	8,408	4,105	4,303
Capital outlay	25,880	70,097	70,097	-0-
TOTAL EXPENDITURES	34,880	78,505	74,202	4,303
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	23,211	(35,728)	(13,238)	22,490
Fund balance, beginning of year	111,989	111,989	111,989	-0-
Prior period adjustment	-	-	(18,187)	(18,187)
Fund balance, end of year	<u>\$ 135,200</u>	<u>\$ 76,261</u>	<u>\$ 80,564</u>	<u>\$ 4,303</u>

Charter Township of Montrose

Sanitary Landfill Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Charges for services	\$ 545,000	\$ 627,976	\$ 627,976	\$ -0-
Interest and rents	3,800	2,447	2,447	-0-
Other	-	14,000	14,000	-0-
TOTAL REVENUES	548,800	644,423	644,423	-0-
EXPENDITURES				
Public works	228,400	211,964	211,963	1
EXCESS OF REVENUES OVER EXPENDITURES	320,400	432,459	432,460	1
OTHER FINANCING USES				
Transfers out	-	(118,412)	(118,412)	-0-
NET CHANGE IN FUND BALANCE	320,400	314,047	314,048	1
Fund balance, beginning of year	77,832	77,832	77,832	-0-
Fund balance, end of year	<u>\$ 398,232</u>	<u>\$ 391,879</u>	<u>\$ 391,880</u>	<u>\$ 1</u>

## **OTHER SUPPLEMENTARY INFORMATION**

Charter Township of Montrose

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

December 31, 2006

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Park	Cemetery	
ASSETS			
Cash and cash equivalents	\$ 21,348	\$ 95,191	\$ 116,539
Prepays	749	1,608	2,357
<b>TOTAL ASSETS</b>	<b>\$ 22,097</b>	<b>\$ 96,799</b>	<b>\$ 118,896</b>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 960	\$ -	\$ 960
Accrued wages payable	315	-	315
Due to other funds	-	3,215	3,215
<b>TOTAL LIABILITIES</b>	<b>1,275</b>	<b>3,215</b>	<b>4,490</b>
FUND BALANCES			
Reserved for prepaids	749	1,608	2,357
Unreserved - undesignated	20,073	91,976	112,049
<b>TOTAL FUND BALANCES</b>	<b>20,822</b>	<b>93,584</b>	<b>114,406</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 22,097</b>	<b>\$ 96,799</b>	<b>\$ 118,896</b>

Charter Township of Montrose

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES

Year Ended December 31, 2006

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Park	Cemetery	
REVENUES			
Charges for services	\$ 31,490	\$ 24,200	\$ 55,690
Interest and rents	230	1,855	2,085
Other	18,462	-	18,462
TOTAL REVENUES	50,182	26,055	76,237
EXPENDITURES			
Current			
General government	-	1,607	1,607
Recreation and cultural	41,954	-	41,954
Capital outlay	4,763	-	4,763
TOTAL EXPENDITURES	46,717	1,607	48,324
EXCESS OF REVENUES OVER EXPENDITURES	3,465	24,448	27,913
OTHER FINANCING SOURCES			
Transfers in	3,852	-	3,852
NET CHANGE IN FUND BALANCES	7,317	24,448	31,765
Fund balances, beginning of year	13,505	69,136	82,641
Fund balances, end of year	\$ 20,822	\$ 93,584	\$ 114,406

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

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MANAGEMENT LETTER

To the Members of the Township Board  
Montrose Charter Township  
Montrose, Michigan

Dear Ladies/Gentlemen:

As you know, we recently completed our audit of the records of Montrose Charter Township, Michigan for the year ended December 31, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are the result of our evaluation of the internal control and our discussions with management.

1. The Township should utilize its computerized accounting system to increase efficiency.

During discussion with management, and through observation, we noted the Treasurer manually prepares receipts and other documentation although the Township has purchased automated receipting software.

We suggest the Township implement the automated system that has been purchased and utilize the software to its fullest extent to increase efficiency and eliminate time consuming record keeping practices.

2. Voided receipts should be reviewed by an individual that is independent of the receipts process.

During the course of our audit, it was noted that voided receipts are not being reviewed and that there is no documentation on the voided receipts indicating the reason for the void.

We suggest the Township include a procedure of documenting the reason for the void in its voiding process. We also suggest implementing an independent supervisory review of all voided receipts with a signature indicating that the review has occurred.

3. Checks should be dated for the day they are printed.

During the course of our audit, we noted one instance where a check that was printed in April 2007 was post-dated for November 2007.

We suggest the Township date all checks with the current date as of the check run.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements and this report does not affect our report on the financial statements dated June 15, 2007.

This report is intended solely for the information of the Township Board of Montrose Charter Township, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these conditions with you and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

June 15, 2007



Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF THE FINANCIAL STATEMENTS**

To the Members of the Township Board  
Montrose Charter Township  
Montrose, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Montrose Charter Township as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated June 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montrose Charter Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

POLICIES AND PROCEDURES

Based on our discussions with management, we noted that the Township has not formally adopted written procedures and policies for several areas of operation. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we recommend that the Township formally adopt, and implement written procedures and policies in the following areas:

## POLICIES AND PROCEDURES - CONTINUED

- a. Fraud risk management program - We recommend that the Township develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve active searching for fraudulent transactions through the use of techniques such as data mining, but should also inform management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.
- b. Disaster recovery plan - We recommend the Township adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Township and detail how the Township would continue to operate in the absence of those critical areas of operation.
- c. Code of conduct - We recommend the Township adopt a code of conduct. The code should include a policy on conflicts of interest and the Township should require employees and Board members to periodically make a declaration of compliance.
- d. Credit card policy - During the course of the audit, it was noted that the Township utilizes credit cards. An inquiry of Township personnel indicated that the Township had not adopted a formal written credit card policy as required by PA 266 of 1955 (MCL 129.241). Therefore, this condition not only affects the Township's internal control over financial reporting, but it is also considered a significant deficiency related to compliance with Michigan Compiled Law.

We recommend that the Township review their credit card policy that was recently adopted to assure it complies with the State of Michigan requirements. The policy must include and/or address the following items:

- a. An officer or employee designated to oversee credit card issuance, accounting, monitoring, and compliance with the policy;
  - b. The use of the credit card only for the purchase of goods and services for the official business of the local unit;
  - c. User of the credit card must submit documentation of what goods and services were purchased, the cost, the date of purchase, and the official business for which purchase was made;
  - d. Office or employee is responsible for credit card protection and custody and must report lost or stolen cards;
  - e. Credit card to be returned to local unit at termination of official or employee;
  - f. Internal control systems over the use of credit cards;
  - g. Approval of credit card invoices prior to payment;
  - h. The balance, including interest, must be paid within 60 days of the initial statement date;
  - i. Disciplinary measures for unauthorized use of credit card; and
  - j. Other matters the local unit considers advisable.
- e. Investment policy - During the course of our audit, it was noted that the Township has not amended their investment policy to address the reporting requirements of GASB Statement No. 40. Effective for the year ended December 31, 2005 GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Township's ability to provide services and meet its obligations as they become due.

We recommend the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes the Township's financial statement by GASB Statement No. 40. In the absence of a policy that addresses deposit and investment risks, the notes to the financial statements are required by generally accepted accounting principles to include a disclosure that such policies do not exist.

- f. Capital asset policy - During the course of our audit, it was noted the Township did not have a formal written capitalization threshold policy in place at year-end. This policy would set forth, among other things, a dollar threshold for items purchased by the Township, which would be considered material, long-lived assets that should be capitalized and depreciated.

We recommend the Township develop a written capitalization policy and formally adopt the policy through Board action.

## POLICIES AND PROCEDURES - CONTINUED

- g. Electronic funds transfer policy - During the course of the audit, it was noted that the Township had used electronic fund transfers to make payments but did not have the necessary electronic funds transfer policy required by the Michigan Public Act 738 of 2002. The Public Act requires such a policy to be in place prior to conducting these transactions. Therefore, this condition not only affects the Township's internal control over financial reporting, but it is also considered a significant deficiency related to compliance with Michigan Compiled Law.

We recommend that the Township adopt a formal electronic funds transfer policy as soon as possible to comply with the State of Michigan requirements.

## BUDGET ADOPTION

It was noted during the course of our audit that the 2006 and 2007 budgets were adopted after the commencement of the fiscal year. Because budgets were not adopted prior to the commencement of the fiscal year, the Township's ability to generate timely and useful budgetary comparisons was impaired. In addition, funds expended before the budget is adopted are considered illegal based on Michigan Public Act 621 of 1978, as amended, which provides that the Township must adopt their budget prior to the fiscal year commencing. Therefore, this condition not only affects the Township's internal control over financial reporting, but it is also considered a significant deficiency related to compliance with Michigan Compiled Law.

We recommend the Township comply with Michigan Public Act 621 of 1978 and adopt their budget prior the beginning of the fiscal year.

## UNFAVORABLE BUDGET VARIANCES

As noted in the financial statements, some of the activities and funds of the Township exceeded the amounts appropriated. The variances noted were in the General Fund.

During the course of our audit, it was noted that budgets are adopted and utilized by management through the course of normal operations. However, through further discussion with management, it was noted that the Township Board does not periodically review budget versus actual reports (budgetary comparison schedules). This review is necessary as the Board is ultimately responsible for the financial health of the Township.

Also, the Michigan Public Act 621 of 1978, as amended, provides that the Township adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Therefore, the lack of monitoring the financial activity of the Township in comparison to the formally adopted budgets resulting in unfavorable budget variances not only affects the Township's internal control over financial reporting, but it is also considered a significant deficiency related to compliance with Michigan Compiled Law.

We recommend the Board be provided with monthly reports that enables them to evaluate the financial condition of the Township and monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

## DOCUMENTING CONTROL PROCEDURES

During the course of our audit, it was noted that in the review stage of time reporting, department heads are not indicating their approval by signing off on the documents (i.e., timesheets). This control procedure is necessary to ensure that time reporting documents are being reviewed and approved by appropriate individuals.

Additionally, it was noted that during the receipting process, while a daily reconciliation of receipts to the money collected is being performed, the Treasurer is not signing or initialing the reconciliation indicating that the procedure has been completed.

We recommend the Township implement a process by which appropriate individuals in supervisory positions review employee timesheets and indicate their approval by signing or initialing the timesheets. We also recommend the Treasurer sign or initial daily receipt reconciliations to document that the procedure has been completed.

## PREPARATION OF FINANCIAL STATEMENTS

Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Township rests with the Township's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at Montrose Charter Township. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the Township's annual financial statements and notes to the financial statements in accordance with GAAP. The Township relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

We recommend the Township consider obtaining the proper training for the appropriate staff members to assure that they are able to fully understand what goes into the preparation of the annual audited financial statements and so that they can take responsibility for the preparation of the annual audited financial statements, assure there are no material misstatements, and assure there are appropriate disclosures in accordance with accounting principles generally accepted in the United States of America.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the following significant deficiencies to be material weaknesses:

### TAX SETTLEMENT WITH COUNTY TREASURER

During the course of our audit, it was noted that the Township has not been settling its property taxes in a timely manner with the Genesee County Treasurer. As of the last day of our audit fieldwork in May, the Township Treasurer had not yet settled the previous tax year's collections with the County Treasurer. Michigan Public Act 206 of 1893 requires the collector in each assessing district in the County to pay to the County Treasurer of its respective County all money collected not later than January 10, and not later than the tenth day of each month thereafter until the regular quarterly settlement for the quarter ending March 31 is made each year.

We recommend that the Township make all required settlements with the Genesee County Treasurer and retain the county settlement worksheets for audit purposes.

### KNOWLEDGE OF ACCOUNTING SOFTWARE AND ACCURACY OF FINANCIAL REPORTING

Upon our initial request for the Township's trial balance, management was unable to generate a complete and accurate trial balance from the automated general ledger. The initial report that was generated excluded all General Fund revenues and several General Fund departmental expenditures. After consulting with the software vendor, it was determined that Township personnel had "closed" the fiscal year for Township several times in a period of a few days. The general ledger should be closed only once per year.

## KNOWLEDGE OF ACCOUNTING SOFTWARE AND ACCURACY OF FINANCIAL REPORTING - CONTINUED

As a result of inappropriately performing year-end closing procedures, the financial reporting generated by the automated general ledger for the Township could not have been accurate. Township management was unaware of the inaccuracies in the general ledger until they were brought to their attention through the audit process. As previously mentioned, by definition, independent auditors cannot be part of the government's internal controls.

We recommend the Township obtain the proper training for the appropriate staff members to assure that they are able to fully understand the accounting software that maintains the Township's general ledger to assure that the financial reporting generated from the automated general ledger is complete and accurate.

### CHECK SIGNING

Through communications with Township personnel, it was noted that the Deputy Clerk has forged the signature of an authorized check signer in their absence. Forgery is considered a felony under Michigan Public Act 328 of 1931 and is punishable by imprisonment for not more than 14 years. Therefore, this condition not only affects the Township's internal control over financial reporting, but it is also considered a significant deficiency related to compliance with Michigan Compiled Law.

We recommend that only authorized check signers actually sign checks and that Township management assure strict compliance with this internal control.

### DEPOSITING RECEIPTS

During our testing of Township receipts, it was noted that receipts were not being deposited in a timely manner. It was noted that during collections of property taxes there were instances of receipts not being deposited for up to two (2) weeks after collection. It was also noted in a sample of twenty (20) general operating receipts (i.e., other than property tax receipts), two (2) receipts were deposited greater than 60 days after they were received.

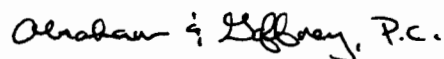
We recommend that the Township follow the recommendations of the State of Michigan, Department of Treasury's Uniform Accounting Procedures Manual and deposit daily during periods of tax collections and at least weekly during other periods of the year.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters. Those instances are disclosed above under the headings: credit card policy, investment policy, electronic funds transfer policy, budget adoption, unfavorable budget variances, tax settlement with County Treasurer, and check signing.

We noted certain matters that we reported to management of Montrose Charter Township in a separate letter dated June 15, 2007.

This report is intended solely for the information and use of management, the members of the Board of Montrose Charter Township, and others within the Township and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

June 15, 2007